

**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
SHERIFF**

**For The Period January 6, 2003
Through December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Blaine Phillips, McCreary County Judge/Executive

Honorable Clarence Perry, McCreary County Sheriff

Members of the McCreary County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of McCreary County, Kentucky, for the period January 6, 2003 through December 31, 2003.

We engaged Ross & Company, PLLC to perform the audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the McCreary County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
SHERIFF**

**For The Period January 6, 2003
Through December 31, 2003**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCREARY COUNTY SHERIFF

**For The Period January 6, 2003
Through December 31, 2003**

Ross & Company, PLLC has completed the McCreary County Sheriff's audit for the period January 6, 2003 through December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees decreased by \$9,298 from the prior year, resulting in excess fees of \$-0- for the period January 6, 2003, through December 31, 2003. Revenues increased by \$17,789 from the prior year and expenditures increased by \$27,087.

Report Comments:

- The Fiscal Court Should Approve A Budget For The Sheriff
- The Fiscal Court Should Have Approved A Limit On the Amount The Sheriff May Expend For Deputies
- The Sheriff Should Present A Final Settlement To The Fiscal Court
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation of Duties

Deposits:

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.

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ROSS & COMPANY, PLLC
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The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Clarence Perry, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of McCreary County, Kentucky, for the period January 6, 2003 through December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the period January 6, 2003, through December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 1, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Clarence Perry, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Fiscal Court Should Approve A Budget For The Sheriff
- The Fiscal Court Should Have Approved A Limit On the Amount The Sheriff May Expend For Deputies
- The Sheriff Should Present A Final Settlement To The Fiscal Court
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of McCreary County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -
October 1, 2004

MCCREARY COUNTY
CLARENCE PERRY, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period January 6, 2003 Through December 31, 2003

Revenues

Federal Grants	\$	89,029
Federal Payments - Forest Patrol		13,000
State Grants		1,631
State - Kentucky Law Enforcement Foundation Program Fund		9,860
State Fees For Services:		
Finance and Administration Cabinet	\$	68,584
Cabinet For Human Resources		478
		69,062
Circuit Court Clerk:		
Sheriff Security Service	\$	9,600
Fines and Fees Collected		1,703
Court Ordered Payments		160
		11,463
Fiscal Court		11,974
County Clerk - Delinquent Taxes		4,125
Commission On Taxes Collected		88,918
Fees Collected For Services:		
Auto Inspections	\$	11,525
Accident and Police Reports		866
Serving Papers		9,753
Carrying Concealed Deadly Weapon Permits		3,480
		25,624
Other:		
Transporting Mental Patients	\$	4,060
Miscellaneous		2,028
Reimbursement		8,867
Penalties on Taxes		16,783
		31,738

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 CLARENCE PERRY, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 6, 2003 Through December 31, 2003
 (Continued)

Revenues (Continued)

Interest Earned		\$	575
Borrowed Money:			
State Advancement	\$	38,971	
Bank Note		<u>15,000</u>	<u>53,971</u>
Total Revenues		\$	410,970

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-			
Deputies' Salaries	\$	161,450	
Other Salaries		<u>17,023</u>	\$ 178,473
Employee Benefits-			
Employer's Share Social Security	\$	17,404	
Employer's Share Retirement		11,978	
Employer Paid Health Insurance		22,436	
Unemployment Insurance		<u>14,265</u>	66,083
Contracted Services-			
Advertising			176
Materials and Supplies-			
Office Materials and Supplies	\$	1,323	
Uniforms		<u>2,608</u>	3,931
Auto Expense-			
Gasoline	\$	21,308	
Maintenance and Repairs		<u>9,715</u>	31,023
Other Charges-			
Conventions and Travel	\$	1,656	
Dues		425	
Postage		3,740	
Bond		350	
Reimbursement		8,867	
Carrying Concealed Deadly Weapon Permits		2,161	
Miscellaneous		<u>508</u>	17,707

The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
 CLARENCE PERRY, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 6, 2003 Through December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Debt Service:

State Advancement	\$	38,971	
Notes		15,000	
Interest		<u>1,631</u>	<u>\$ 55,602</u>

Total Expenditures			<u>\$ 352,995</u>
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Net Revenues			\$ 57,975
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Less: Statutory Maximum			<u>59,199</u>
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Balance Due Sheriff at Completion of Audit			<u><u>\$ (1,224)</u></u>
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The accompanying notes are an integral part of this financial statement.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 14, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$396,537 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of November 14, 2003.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	1,200,000
Uncollateralized and uninsured	<u>396,537</u>
Total	<u><u>\$ 1,696,537</u></u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 4. Drug Control Account

A drug control account was opened on April 29, 1994, with forfeited drug money. This money is restricted and may only be used for drug control. The balance as of January 6, 2003, was \$654. During the period, the Sheriff received \$1,641. Expenditures were \$349. The unexpended balance of the account was \$1,946 as of December 31, 2003. These funds are not available as excess fees.

Note 5. Federal Asset Forfeiture Account

The McCreary County Sheriff maintained a Federal Asset Forfeiture Account. The grant agreement states that "priority should be given to supporting community policing activities, training, and law enforcement operations calculated to result in further seizures and forfeitures." The balance as of January 6, 2003, was \$3,044. During the period, the Sheriff received \$6,149. Expenditures were \$5,255. Ending balance as of December 31, 2003, was \$3,938.

Note 6. Cops In Schools Grant

In 1999 the office of the former Sheriff was awarded a grant under the Office of Justice Programs in the amount of \$344,170 to be expended over three years. The balance as of January 6, 2003, was \$0. During the period, the Sheriff received \$95,093. Expenditures were \$89,029. Ending balance as of December 31, 2003, was \$6,064.

Note 7. Overtime Grant LLEB-563-03

The McCreary County Sheriff opened a bank account in November 2003 for funds received under an overtime grant from the Kentucky Justice Cabinet. For the period, the Sheriff received \$4,002. Expenditures were \$1,631. Ending balance as of December 31, 2003, was \$2,731.

Note 8. Sheriff's Salary

The Sheriff did not receive \$1,224 of his salary. He should contact the County Attorney relative to procedures on collecting his full salary.

COMMENTS AND RECOMMENDATIONS

MCCREARY COUNTY
CLARENCE PERRY, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 6, 2003 Through December 31, 2003

STATE LAWS AND REGULATIONS:

The Fiscal Court Should Approve A Budget For The Sheriff

KRS 67.080(1)(c) and (d) state the fiscal court may (1)(c) regulate and control the fiscal affairs of the county. The document presented by the Sheriff and approved by the fiscal court provides an estimate of receipts and disbursements of the Sheriff's office. We recommend the fiscal court approve a budget that sets a limit on receipts and disbursements of the Sheriff and then requires the Sheriff to amend that budget when either is exceeded.

Sheriff's Response:

None

The Fiscal Court Should Have Approved A Limit On the Amount The Sheriff May Expend For Deputies

KRS 64.530 states the fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant. We recommend that the fiscal court fix annually the maximum amount the Sheriff may expend for deputies.

Sheriff's Response:

None

The Sheriff Should Present A Final Settlement To The Fiscal Court

KRS 134.310(5) states,

In counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his final settlement:

- (a) A complete statement of all funds received by his office for official services, showing separately the total income received by his office for services rendered, exclusive of his commissions for collecting taxes, and the total funds received as commissions for collecting state, county, and school taxes; and
- (b) A complete statement of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses.

We recommend the Sheriff present a final settlement to the fiscal court.

Sheriff's Response:

None

MCCREARY COUNTY
CLARENCE PERRY, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 6, 2003 Through December 31, 2003
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On November 14, 2002, \$396,537 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursement ledgers.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should approve all disbursements and sign all checks.

Sheriff's Response:

None

MCCREARY COUNTY
CLARENCE PERRY, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 6, 2003 Through December 31, 2003
(Continued)

PRIOR YEAR:

The Former Sheriff Did Not Make Final Settlement With The Fiscal Court In A Timely Manner

Sheriff's Response:

We were waiting until our audit was finished.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Blaine Phillips, McCreary County Judge/Executive
The Honorable Clarence Perry, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCreary County Sheriff for the period January 6, 2003 through December 31, 2003, and have issued our report thereon dated October 1, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the McCreary County Sheriff's financial statement for the period January 6, 2003 through December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Fiscal Court Should Approve A Budget For The Sheriff
- The Fiscal Court Should Have Approved A Limit On the Amount The Sheriff May Expend For Deputies
- The Sheriff Should Present A Final Settlement To The Fiscal Court
- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCreary County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we consider to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC

Audit fieldwork completed -
October 1, 2004

